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letter of 11/11/1978 from
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INTELLIGENCE REPORT

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COUNTRY China

DATE: 25X1

SUBJECT Economic Information: Non-official Explanations
of the Current Accelerated Inflation

INFO.

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☐ Note: This report is not an analysis of the present Chinese financial situation: it merely presents certain factors advanced by Communists and other non-official persons which might be taken into consideration in connection with the current "gold rush." The fundamental policies of the Chinese Government, the absence of peace, the political confusion, and the large military expenditures - the basic issues causing the present economic crisis - are not discussed.)

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Feuds Between Financial Cliques of the Kuomintang

1. The two major financial cliques involved in the so-called "Shanghai gold rush" are the Shansi Clique, headed by H.H. KUNG, and the Kwangtung Clique, of which T. V. SOONG is an influential member. [] Note: Information previously received does not show that T.V. SOONG is a member of the Kwangtung Clique. / SOONG has purchased gold in the United States at US\$35 an ounce and sold it in China at a profit. [] Note: It is known by those who have had reason to look into the matter that this gold was credited to China as a part of the United States 1942 loan of US\$500,000,000 dollars which was negotiated at the time KUNG was President of the Executive Yuan and Minister of Finance.) By selling gold SOONG has been able to take some currency out of circulation and thus save, for a time, the issue of new currency. Recently the gold sold by SOONG (the Central Bank) has been bought up by KUNG and the big bankers of the Shansi Clique as well as by some of the non-SOONG men in the Kwangtung Clique. This heavy buying of as much gold as is released by the Central Bank has not permitted the price of gold to drop; this has embarrassed SOONG and has caused him to be severely criticized.

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2. PEI Tzu-yi, Governor of the Central Bank, wants to fight KUNG by selling all the gold SOONG has at his disposal. This should cause the price of gold to drop and if KUNG has purchased most of it, as PEI believes, he would be placed in an embarrassing position. SOONG is willing to compromise with KUNG.

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☐ 3. The Generalissimo does not dare to remove SOONG and put another man in SOONG's place because: a) SOONG and KUNG would then get together and hinder the work

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Comment: Note the date of information. All evaluations were made [redacted] and were unchanged with the exception of the first two sentences in paragraph 10. [redacted]

**/See note on page 2-7

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of SOONG's successor; b) if KUNG replaced SOONG, he would then be the object of attacks by SOONG similar to those he himself formerly launched; c) there is no other man in the Kuomintang who can be as successful a dictator of economic affairs and serve the moneyed interests of the government better than SOONG.

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4. PEI is at present waging a battle with LIU Kung-jen, Director of the Central Trust. Under PEI's direction and with the backing of SOONG, amendments and regulations designed to gain control of the imports and lessen LIU's power are being put into effect. Note: Comment on the difficulties of these two men: (1) The Central Trust, as a government purchasing agency, is outside the Central Bank's exchange control. The Central Trust has spent millions of dollars of China's foreign exchange on behalf of government agencies and government personnel for imports that the Board for the Temporary Regulations of Imports (under PEI) would have prohibited and has prohibited for everyone else. To this extent the Central Trust has sabotaged the exchange control. (2) PEI has tried, unsuccessfully so far, to get the Central Trust to assume responsibility for passing on certain types of importers' applications for import licenses, simply in order to reduce the burden on the greatly overworked departments of the Board for Temporary Regulations of Imports. LIU, however, has consistently refused to have anything to do with the Board, since he wants to maintain the independent character of the Central Trust.)

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5. SOONG will be sent to America to negotiate for the loan as soon as the reorganization of the government is announced, thus leaving vacant the presidency of the Executive Yuan. **

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6. On 13 February Dr. KUNG gave to the press a release which stated that he had had no connection with the buying of gold or the manipulations in the gold market and that he therefore demanded a thorough investigation by the Central Bank and a resulting publication of a list of persons and firms who had recently bought gold. His claims are considered false for the most part. Many of the "underlings" who have bought gold in their own names are KUNG men and members of the Shansi Clique. The remaining buyers are primarily hirelings of the Kwangtung financial clique who are not loyal followers of SOONG.

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7. HUO Pao-hsu (P.H. HO), head of CNRRA and a loyal SOONG man, has been personally dealing in the gold market David KUNG (son of H.H. KUNG), head of the Yangtze Trading Company, has been dealing in the gold market for his mother and father as well as in personal speculation with import commodities.

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** Note: T.V. SOONG resigned on 23 February and on 1 March the Supreme National Defense Council named the Generalissimo as President of the Executive Yuan. PEI Tsu-yi was replaced as Governor of the Central Bank on 1 March by CHANG Kia-ngau.

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- ☐ 8. The paymasters (also called disbursing officers and finance officers) of each Nationalist army in China must go to Nanking to get the money for the payrolls. After receiving this money in currency, the paymaster either buys gold in Shanghai and holds it until he has made a considerable profit, or he takes the gold back to his own area and sells it there at a profit. This profit is split between the paymaster and his commanding general.

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- ☐ 9. The activities of the merchants, shop owners, and other speculators not connected with the large financial cliques are another cause of the present trouble. These persons have increased their buying and selling activities. In order to avoid the losses which follow devaluation of CNC, the ordinary merchants are converting their currency into gold bars, US\$ notes, and commodities. Most of the silver and ornament shops are buying gold and making it into ornaments and jewelry.

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- ☐ 10. The Chinese Communists have decided to exert great effort to cause the economic and financial situation in China to become worse. They have probably decided to promote the future of their party by encouraging the dissatisfaction of the Chinese masses with the Kuomintang and its financial policy, rather than to work for the general good by trying to improve the financial situation. Men like SOONG and KUNG continue to make fortunes in the financial market without any regard for the misery of the people and the criticism of the Kuomintang itself.

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- ☐ 11. Communists buy commodities with their own bank notes and then sell the commodities for CNC, with which they purchase gold bars. ☐ Comment: This opinion has been voiced by all Kuomintang-owned or supervised newspapers in the Shanghai area.)

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- ☐ 12. Many of the third-rate money exchange shops in Shanghai are run or controlled by the Chinese Communists. They have done a great deal of speculating in the past week.

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